

Engineer's Report
FOR THE
FORMATION
OF THE
MELROSE
PROPERTY BUSINESS IMPROVEMENT
DISTRICT

*Prepared February 2012 pursuant to the State of California
Property and Business Improvement District Law of 1994
to adopt a Management District in the Melrose area, a community within the
City of Los Angeles*

*By
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ENGINEER'S REPORT

Introduction

This report shall serve as the “detailed engineer’s report” required by Section 4(b) of Article XIID of the California Constitution (Proposition 218) to support the benefit assessments proposed to be levied annually beginning in January 2013 and through and including December 2017 within the Melrose Property Business Improvement District (the “District”). The assessments levied in connection with the District will be levied against parcels of real property, not businesses. Assessments will be collected on the tax roll so, for example, the assessment to fund calendar year 2013 operations will be collected on the 2012-13 tax roll.

Background

The District is a property-based assessment district established pursuant to the Property and Business Improvement District Law of 1994 (Streets & Highways Code Section 36600 *et seq.*; hereinafter “State Law”). The State Law authorizes an assessment to fund various services, activities, improvements, and programs (referred to herein collectively as “Services”), provided in connection with a Business Improvement District. The costs of these Services are distributed among all parcels benefiting from the Services based on the proportional benefit each receives from the improvements provided. Only those properties expected to benefit from funded Services may be assessed.

This Engineer’s Report was prepared in support of the Management District Plan for the District. Reference is made to the Management District Plan (which is incorporated herein by reference) for a more complete description of the improvements to be funded with the proposed assessment.

Proposition 218 Requirements

Article XIID of the California Constitution, approved by the voters in 1996 as Proposition 218, requires that assessment methodologies meet certain requirements. Key provisions of Proposition 218 together with a description of how the District complies with each are described below.

Finding 1: “Identify all parcels which have a special benefit conferred upon them and upon which an assessment will be imposed” (From Section 4(a)).

There are 180 identified parcels within the District that will specially and individually benefit from its proposed Services. These parcels are shown on the boundary map of the District contained within the Management District Plan, and listed in attachments to the Management District Plan and this Engineer’s Report. The lists identify these parcels by Assessor’s Parcel Number, property owner name, and site address.

Parcels were identified for inclusion based upon their location. The purpose of the proposed District is to provide Services to parcels in the Melrose commercial area, located along Melrose Avenue between N. Highland Avenue on the east and N. Fairfax Avenue on the west. Like many commercial areas in Los Angeles, Melrose is a narrow strip, which is approximately one block deep on each side of Melrose Avenue and substantially surrounded by residential neighborhoods. Consequently, all non-residential parcels located within a block of Melrose Avenue were included in the District, while the surrounding residential neighborhoods were not. Parcels zoned solely for residential use are excluded from the District or not assessed because, pursuant to Section 36632(c) of the Law, they are deemed not to benefit from District improvements, activities, and services.

In order to ensure that parcels outside of the District will not specially benefit from the Services funded with the assessment, Services will only be provided within the boundaries of the District. Specifically, ambassador patrols, landscaping staff, maintenance / sanitation personnel, and similar service providers employed in connection with the District will only patrol and provide services on the streets and sidewalks within the District and will not provide services outside of District boundaries. Similarly, the District will not fund new landscaping, street furniture or streetscape improvements outside of the boundaries of the District, nor will District promotional efforts promote activities outside of District boundaries. All District programs are intended to promote commercial vitality, and to attract and retain new business within the District.

Parcels outside of the District that are in residential use will not specially benefit from District Services because the Services will not be provided on the street or sidewalk fronting such parcels. Therefore, these residential parcels will be physically remote from the Services — patrols will not go in front of such parcels and maintenance / sanitation crews will not clean in front of such parcels. Furthermore, homes, apartments and other structures solely used as residences, and outside of the commercial area encompassed by the District, will not specially benefit from the marketing and policy-making services that will be geared towards the commercial use parcels within the District. These services will be marketing the office and retail opportunities in the District, not the residential opportunities outside of it. Additionally, the State Law conclusively presumes that parcels zoned solely for residential use receive no special benefit from improvements, activities, and services funded under it.

Parcels outside of the District that are in commercial or other non-residential uses, will not specially benefit from District Services because the Services will not be provided on the street or sidewalk fronting such parcels. Therefore, these commercial or other non-residential use parcels will be physically remote from the services — patrols will not go in front of such parcels and maintenance / sanitation crews will not clean in front of such parcels. These commercial or other non-residential use parcels are best understood as parts of other commercial or residential Districts that surround the Melrose commercial area, not as part of this District.

The following narrative explains how specific boundary locations were determined.

Northern Boundary:

The northern boundary of the District begins at the intersection of the centerline of N. Fairfax Avenue with the centerline of the public alley north of parcel 5527-011-005 (the parcel at the northeast corner of N. Fairfax Avenue and Melrose Avenue). From that point, the District boundary follows the centerline of the public alley east approximately 1 mile to the centerline of N. Formosa Avenue. At the point at which the public alley centerline intersects with the centerline of Poinsettia Place, the boundary follows the Poinsettia Place centerline to transition from 15 ft. wide public alley width to the west and 20 ft. wide public alley to the east and then continues east along the public alley centerline. Continuing at the point of intersection of the center of the public alley and the centerline of N. Formosa Avenue, the District boundary runs north along the centerline of N. Formosa Avenue to its intersection with the centerline of Waring Avenue, then east along the centerline of Waring Avenue to its intersection with N. Detroit Street, then south along the centerline of N. Detroit Street to its intersection with the centerline of the public alley to the north of parcel 5525-009-022 (the parcel located at the northeast corner of N. Detroit Street and Melrose Avenue). From that point, the District boundary continues east along the centerline of the public alley to the centerline of the public alley to the east of that parcel 5525-009-022, then along that centerline to its intersection with the north parcel boundary of parcel 5525-009-024 at which point it continues east across N. La Brea Avenue to the centerline of the public alley to the north of parcel 5525-008-032 (the parcel located at the northeast corner of N. La Brea Avenue and Melrose Avenue). From that point, the District boundary continues east along the centerline of the public alley to its intersection with the centerline of the N. Citrus Avenue then, south along that centerline to its intersection with the centerline of Melrose Avenue, then along that centerline to its intersection with the centerline of Highland Avenue. This boundary was chosen to include all of the complimentary functioning non-residential parcels that compose the unique, historically identified, compact, pedestrian oriented Melrose area to the south between N. Fairfax Avenue and N. Highland Avenue and exclude all solely residential parcels located to the north of the alley that runs behind the Melrose Avenue business strip. Solely residential parcels are presumed by State Law to not benefit from District improvements, activities, or services. The area to the north of the alley is residential, except along N. Fairfax Avenue, N. La Brea Avenue, and N. Highland Avenue (each of which constitutes a distinct business corridor). The commercially zoned parcels that front on N. Fairfax Avenue or N. La Brea Avenue are excluded from the District because they are oriented to provide services to those major commercial collector streets and would not benefit from the improvements, activities, or services provided for the unique, historically identified, compact, pedestrian oriented Melrose and its complimentary functioning commercial uses. The commercially zoned parcels that front N. Highland Avenue are excluded from the District because they are included within the boundaries of the Hollywood Media District BID and, therefore, prohibited by State Law from being included in the District. All assessed parcels located within the District will specially and

individually benefit from its improvements, activities, and services. No improvements, activities, or services will be provided outside of the District's boundaries.

Eastern Boundary:

The eastern boundary of the District begins at the intersection of the centerline of Melrose Avenue and its intersection with the centerline of N. Highland Avenue and extends south along that centerline to its intersection with the centerline of the public alley south of parcel 5524-017-001. This boundary was chosen to include all of the unique, historically identified, compact, pedestrian oriented Melrose parcels to the west that function as a complimentary economic unit. This boundary also excludes from the District commercially zoned parcels that front on N. Highland Avenue that are located within the Hollywood Media District BID and precluded by State Law from being included within the Melrose BID boundaries. Residentially zoned parcels that front on N. Highland Avenue are excluded from the District because they are presumed by State Law to not benefit from District improvements, activities, or services. The auto maintenance commercial use located at Highland Avenue is oriented to provide services as part of the extended commercial corridor located along that major arterial street and that would not benefit from the improvements, activities, or services provided for the unique, historically identified, compact, pedestrian oriented Melrose area. Parcels located east of N. Highland Avenue on Melrose Avenue are either zoned solely residential and presumed by State Law to not benefit from improvements, services, and activities provided by the District or are commercial parcels that are oriented to providing services to the surrounding residential neighborhood and are also excluded from the District because they would not benefit from the improvements, activities, or services provided for the unique, historically identified, compact, pedestrian oriented shopping district fronting on Melrose Avenue. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services of the District. No improvements, activities, or services will be provided outside of the District's boundaries.

Southern Boundary:

The southern boundary of the District continues west from the intersection of the centerline of N. Highland Avenue with the centerline of the public alley south of parcel 5524-017-001 (the parcel located at the southwest corner of N. Highland Avenue and Melrose Avenue). From that point, the District boundary follows the centerline of the public alley west approximately 1 mile to the centerline of N. Genesee Avenue. At that point, to include the Fairfax High School parcel 5527-021-900 that fronts on Melrose Avenue, the District boundary runs south along the centerline of N. Genesee Avenue to its intersection with the centerline of Rosewood Avenue, then west along the centerline of Rosewood Avenue to its intersection with the centerline of N. Fairfax Avenue. This boundary was chosen to include all of the of the complimentary functioning commercial parcels that compose the unique, historically identified, compact, pedestrian oriented Melrose area to the north and

exclude those to the south that are zoned solely residential and presumed by State Law to not benefit from District improvements, activities, or services. Also excluded from the District were commercially zoned parcels that front on N. Fairfax Avenue, or N. La Brea Avenue (each of which constitute a distinct business corridor). These extended, regional commercial corridors are oriented to provide services to automobile traffic on those major arterial streets and would not benefit from the improvements, activities, or services provided for the pedestrian oriented shopping district fronting on Melrose Avenue. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services. No improvements, activities, or services will be provided outside of the District's boundaries.

Western Boundary:

The western boundary of the District continues north along the centerline of N. Fairfax Avenue from its intersection with the centerline of Rosewood Avenue south of parcel 5527-021-900 (the parcel located at the southwest corner of N. Fairfax Avenue and Melrose Avenue), and extends to its intersection with the centerline of the public alley north of parcel 5527-011-005, which is the point of beginning for this boundary description. This boundary was chosen to include all of the unique, historically identified, compact, pedestrian oriented Melrose area parcels to the west the function as a complimentary economic unit. This boundary also excludes from the District commercially zoned parcels that front on N. Fairfax Avenue that are a part of the extended commercial corridor located along major arterial street and oriented to provide services to automobile traffic on that major arterial street, and that would not benefit from the services provided for the pedestrian oriented shopping district fronting on Melrose Avenue. Parcels located west of N. Fairfax Avenue that are zoned solely residential and presumed by State Law to not benefit from District improvements, activities, or services are also excluded from the District. Commercial parcels located west of N. Fairfax Avenue that are oriented to providing services to adjacent residential neighborhoods are excluded from the District because they would not benefit from the improvements, activities, or services provided for the pedestrian oriented shopping district fronting on Melrose Avenue. Also excluded from the District are commercial parcels located west of N. Fairfax Avenue that are a part of non-Melrose shopping areas and would not benefit from the improvements, services, and activities directed to that unique, historically identified, compact, pedestrian oriented Melrose area parcels to the west the function as a complimentary economic unit. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services of the District. No improvements, activities, or services will be provided outside of the District's boundaries.

Finding 2: "Separate the general benefits from the special benefits conferred on parcel(s). Only special benefits are assessable." (From Section 4(a)).

The Services, their costs, and assessments have been carefully identified, reviewed, and allocated based on special benefit pursuant to the provisions of State Law and Proposition 218.

Proposition 218 defines “special benefit” to “mean a particular and distinct benefit over and above general benefits conferred on real property located in the District or to the public at large. General enhancement of property value does not constitute ‘special benefit.’” The Services of the District are designed to provide targeted benefits to specific parcels. These Services are tailored to confer special benefits on particular parcels, not the general public, and are above and beyond services available from the City of Los Angeles, which qualifies these Services as particular and distinct benefits. For example, the proposed ambassador program is targeted to focus on services of interest to commercial property-owners and their tenants (aiding pedestrians seeking directions to business locations, watching out for conditions endangering the security and safety of businesses and their customers). Similarly, the proposed maintenance program is focused on sidewalk cleaning, trash removal, graffiti removal, and cleaning at the properties that are assessed. Marketing and promotions efforts of the District are targeted to increase economic activity within the assessment area. No District services will be provided outside the District boundaries.

General benefit would be defined as an overall and similar benefit to real property within the District or to the public at large. “At large” includes, but is not limited to all members of the public including those that live, work, and shop within the District. The proposed District Services provide, at most, *de minimus* general benefits (benefit to properties in the surrounding community, to the public, or to persons and property generally). The District funds services over and above those already provided by the City within the boundaries of the District. These services are provided only to the properties within the District, not to the public at large. General benefits, if any, to the surrounding community and the public in general are *de minimus*, intangible and unquantifiable.

The improvements, activities, and services (ambassador, maintenance, cleaning, beautification, marketing, promotions, etc) to be provided by the District are designed to meet specific needs of the property owners to improve business within the District area and provide special and individual benefits to each property. Improving the business environment supports the goals and objectives established by the property owners in creating the District. The City of Los Angeles will continue to provide police protection, maintenance services, and social services within the District area to the extent that the City provides these services elsewhere throughout the community.

No parcels zoned for solely residential use have been assessed within the District.

Finding 3: “[Determine] the proportionate special benefit derived by each parcel in relationship to the entirety of the... cost of public improvement(s) or the maintenance and operation expenses...or the cost of the property related service being provided.” (From Section 4(a)).

Parcels in the District will benefit from the Services provided in connection with the District because these Services are designed to increase pedestrian and automobile traffic and building occupancies thereby increasing demand for and utilization of retail and commercial property within the District. The services are intended to transform the District into a safe, vibrant, extended-hour community.

Three factors (lot size, improvement size, and street frontage) were chosen to calculate the special benefit allocable to each parcel in the District.

Lot size is a measurement both of the potential for future development on a parcel to meet customer and tenant demand, and of the present capacity of the parcel's street level areas to accommodate customers and tenants. Street level space benefits strongly from business improvement district improvements, activities, and services because such space is more readily used for retail space, lobby services, and surface parking facilities that are especially sensitive to increases in customer demand.

The size of the improvements on a parcel is a measurement of the capacity of that parcel to currently serve the demand of customers and of retail, commercial and residential tenants.

Frontage is a vital measure because it indicates the amount of the parcel that is directly accessible to and visible from the street. The more frontage a parcel has, the larger the area of sidewalk is in front of the parcel to be patrolled and cleaned in connection with District services.

Combining these three factors gives a far better picture of the benefits than could be derived from just one or two of the factors. Because no one of these factors is more important than the others, and each factor is critical to the overall benefit calculation, each factor is weighted equally in quantifying the benefits any particular parcel would receive.

Parcels in use as schools and owned by the Los Angeles Unified School District (LAUSD) require special analysis in order to avoid overstating the benefits they receive. Such parcels will be assessed only for the liner street frontage along Melrose Avenue and other streets located in the District only for the length of the frontage that is directly across from other street frontage that is in the District. LAUSD parcels will benefit from the direct delivery of maintenance, sanitation and ambassador/patrol services along their Melrose Avenue and other street frontage that is directly across from street frontage that is in the District. Other District services such as marketing and promotions; new business attraction; and policy development, management, and administration are designed to increase commerce and foot traffic in the District. Public schools, by their nature, do not benefit from these services to the same extent as other uses. The reduced assessment also recognizes that school parcels are disproportionately large in square footage and improvement square footage compared with their intensity of use, as a result of the inclusion of playing fields, quads, and similar areas, as well as auditoriums and other buildings that are used only occasionally or only during part of the day.

The Special Benefit & Assessment Analysis section of this Engineer’s Report discusses the exact formula used to calculate the benefits.

Finding 4: “No assessment ...shall exceed the reasonable cost of the proportional special benefit conferred on parcel(s).” (From Section 4(a)).

The total amount to be assessed will not exceed the estimated reasonable cost of the program. Because each parcel will be assessed in proportion to its share of the total benefit created by the program, no assessment will exceed the reasonable cost of the proportional special benefit conferred on the parcel.

Finding 5: “Parcels...that are owned or used by any (public) agency shall not be exempt from assessment.” (From Section 4(a)).

All parcels owned by public agencies will be assessed at the same rate as private parcels of the same size, location and use. This includes the parcels in the District that are owned by the Los Angeles Unified School District. The methodology for these assessments is set forth in Finding 4.

The publicly-owned parcels in the District are listed below:

LOS ANGELES UNIFIED SCHOOL DISTRICT (LAUSD)

	APN #	Description	Owner	Total PBID Assessment	%
1	5525-010-900	Melrose Elementary School	LAUSD	\$4,063.88	0.84%
2	5527-021-900	Fairfax High School	LAUSD	\$7,775.28	1.60%
		Total LAUSD		\$11,839.16	2.44%

As described above parcels in use as schools and owned by the LAUSD were the subject of special analysis in order to avoid overstating the benefits they receive. Such parcels will be assessed only for the liner street frontage of streets that also front commercial parcels and District Services will be provided along this frontage.

Finding 6: “All assessments must be supported by a detailed engineer’s report prepared by a registered professional engineer certified by the State of California.” (From Section 4(b)).

This report is the “detailed engineer’s report” to support the assessments proposed to be levied within the Melrose Business Improvement District.

Special Benefit & Assessment Analysis

A six (6)-step process for determining Melrose assessments has been used as delineated below.

Step 1: Select “benefit units.”

Because the assessment against each parcel must reflect the special benefit that parcel derives from the District's improvements, activities and services, the first step in designing an assessment methodology was to assign "benefit units" to different parcel attributes. The assignment of benefit units reflects the relative levels of benefit discussed in "Finding 3", above.

There are three types of benefit units:

A. Lot Benefit Units:

Each parcel in the District was allocated one Lot Benefit Unit for each square foot of the parcel's surface area.

B. Building Benefit Units:

Each parcel fronting in the District was allocated one Building Benefit Unit for each square foot of improvements.

C. Frontage Benefit Units:

Each parcel in the District was allocated one Frontage Benefit Unit for each linear foot of the parcel's frontage on any street except for those parcels zoned PF and used as public schools by the LAUSD. These parcels will be allocated one Frontage Benefit Unit for each linear foot of Melrose frontage and one Frontage Benefit Unit for each linear foot of other street frontage only for the length that is directly across from other frontage that is included in the District. Fairfax High School will be assigned 816 linear feet of Melrose Avenue frontage and 110 linear feet of Genesee Avenue frontage. Melrose Elementary School will be assigned 264 linear feet of Melrose frontage and 110 linear feet of Formosa Avenue frontage and 110 linear feet of Detroit Street frontage. With respect to PF zoned parcels, District Services will only be performed on these frontages and no others. District Services will be provided on all frontages of all other District parcels.

Step 2: Calculate the benefit units for each property.

The number of each type of benefit unit allocated to each identified benefiting parcel within the Melrose was determined from data obtained from the County of Los Angeles and third party real estate data service providers. These data sources provide Assessor Parcel Numbers, ownership, address, parcel size, gross building size, street front footage, and other needed information. This data provides a basis for calculating property-based assessments. All relevant data being used in assessment calculations has been provided, or attempted to be provided, to each property owner in the District for their review. All known or reported discrepancies or errors have been corrected.

Step 3: Quantify total basic benefit units.

In aggregate, there are 1,081,195 Lot Benefit Units; 838,643 Building Benefit Units; 19,297 Frontage Benefit Units.

Step 4: Calculate “Basic Benefit Unit Cost” for special benefits.

The annualized cost of the services and improvements to be provided by the District during 2013 is \$486,072 per year (before inflation adjustments). \$162,024 of these costs will be allocated based on Lot Benefit Units; \$162,024 based on Building Benefit Units; and \$162,024 based on Frontage Benefit Units.

The cost per benefit unit is therefore as follows:

A. Lot Benefit Units:

$$\$162,024 / 1,081,195 = \$0.1499 \text{ per Lot Benefit Unit}$$

B. Building Benefit Units:

$$\$162,024 / 838,643 = \$0.1932 \text{ per Building Benefit Unit}$$

C. Frontage Benefit Units:

$$\$162,024 / 19,297 = \$8.3964 \text{ per Frontage Benefit Unit}$$

Step 5: Determine Assessment Formula.

Combining the calculations from Steps 1 and 4, the assessment formula is therefore:

District assessment formula (for non-PF zoned parcels) = (\$0.1499 X square feet of parcel size) + (\$0.1932 X square feet of improvements) + (\$8.3964 X linear feet of frontage).

District assessment formula (for PF zoned parcels) = (\$8.3964 X linear feet of frontage served only).

Step 6. Spread the Assessments

The resultant assessment spread calculations for each parcel within the District are shown in an attachment to this Engineer’s Report and were determined by applying the District assessment formula to each benefiting property. This list of all identified benefiting parcels in the District area delineates each parcel and its benefit units for parcel area, improvement size, and linear street frontage.

During the five-year effective term of the District, it is likely that some parcels within the District will be developed with additional commercial improvements or will see the demolition of existing improvements. The assessment against such parcels shall be recalculated beginning with the assessment for the first year following the construction or demolition of improvements. The new assessment against such a parcel shall be calculated pursuant to the formula set forth in Step 5 on Page ER-11. Pursuant to Government Code Section 53750(h)(3), such recalculation does not constitute an “increase” of assessment that requires the conduct of a new Proposition 218 ballot proceeding. Such a proceeding will be required if the assessment formula is itself changed.

Assessment rates may be adjusted annually by the Owner’s Association to reflect changes in the Consumer Price Index for Los Angeles-Orange-Riverside for All Urban Consumers, but this adjustment will not exceed three per cent (3%) per fiscal year.

Engineer’s Certification

Review of this Management District Plan and preparation of the Engineers Report was completed by:

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INSERT ASSESSMENT CHART